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March 5, 2003

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# Logistics

Accountability and Control of  
Materiel at the Naval Air Depot,  
Jacksonville  
(D-2003-057)

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Department of Defense  
Office of the Inspector General

*Quality*

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## **Acronyms**

MRP II	Manufacturing Resource Planning II System
NADEP-JAX	Naval Air Depot, Jacksonville
NAVAIR	Naval Air Systems Command
NAVAIRINST	Naval Air Instruction
POU	Point of Use



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

March 5, 2003

MEMORANDUM FOR NAVAL INSPECTOR GENERAL

SUBJECT: Report on Accountability and Control of Materiel at the Naval Air Depot,  
Jacksonville (Report No. D-2003-057)

We are providing this report for review and comment. This report is one in a series being issued by the Inspector General of the Department of Defense that discusses accountability and control of materiel at maintenance depots.

DoD Directive 7650.3 requires that all issues be resolved promptly. The Navy did not provide comments on a draft of this report; therefore, we request that management provide comments on this report by April 5, 2003.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to [Audls@dodig.osd.mil](mailto:Audls@dodig.osd.mil). Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions on the audit should be directed to Mr. Dennis E. Payne at (703) 604-8907 (DSN 664-8907) or Mr. Joseph M. Austin at (703) 604-9178 (DSN 664-9178). See Appendix B for the report distribution. Team members are listed inside the back cover.

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Deputy Assistant Inspector General  
for Auditing

# **Office of the Inspector General of the Department of Defense**

**Report No. D-2003-057**

(Project No. D2002LH-0203)

**March 5, 2003**

## **Accountability and Control of Materiel at the Naval Air Depot, Jacksonville**

### **Executive Summary**

**Who Should Read This Report and Why?** DoD personnel who are involved in materiel management of aviation spare parts should read this report. The report discusses compliance with policies and procedures used to account for and control materiel at Naval Air Depot, Jacksonville.

**Background.** This is the fifth in a series of reports the Inspector General of the Department of Defense is issuing that discusses accountability and control of materiel at DoD maintenance depots. The Joint Group on Depot Maintenance estimated the DoD depot maintenance expenditures to be about \$15.3 billion for FY 2002. The Navy portion of that amount was about \$6.8 billion. Close to \$1.5 billion of the \$6.8 billion was for operation of three Naval Air Depots. According to the Naval Air Depot, Jacksonville Comptroller's Office, the FY 2002 budget for the operation of the depot was about \$700 million, and the value of the depot maintenance materiel inventory was about \$89 million.

Depot maintenance facilities need an effective inventory control system to ensure that an adequate supply of materiel is on hand to maintain efficient levels of operation and to meet the demands of customers. An effective system is also important to disclose defective and obsolete goods; prevent loss through damage, pilferage, or waste; and ensure the accuracy of inventory records. Through inventory control, materiel not needed for current requirements at a depot can be identified and made available for redistribution to meet other known requirements.

**Results.** Naval Air Depot, Jacksonville maintained materiel that exceeded requirements. As a result, Naval Air Depot, Jacksonville had about \$20 million of materiel in excess to known requirements stored at the depot. Also, our stratified sample of 385 inventory records at Naval Air Depot, Jacksonville produced an estimated count error rate of about 23.8 percent. Excess and inaccurate inventories will result in materiel that loses visibility to item managers and may become lost, obsolete, or stolen. In addition, proper management decisions over the use of materiel may have been hampered. Increased management controls over maintenance materiel will improve the accuracy of the Naval Air Depot, Jacksonville inventory, reduce excess materiel, and correct material management control weaknesses identified in this report. (See the Finding section for the detailed recommendations.)

**Management Comments.** A draft of this report was issued on November 27, 2002. The Navy did not provide comments on the draft report. We request that the Commander, Naval Air Systems Command and the Commander, Naval Air Depot, Jacksonville comment on the final report by April 5, 2003.

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## Background

This report is the fifth in a series of reports resulting from our audit of accountability and control of materiel at DoD maintenance depots. The Joint Group on Depot Maintenance estimated the DoD depot maintenance expenditures to be about \$15.3 billion for FY 2002. The Navy portion of that amount was about \$6.8 billion. Close to \$1.5 billion of the \$6.8 billion was for operation of three Naval Air Depots. According to the Naval Air Depot, Jacksonville (NADEP-JAX) Comptroller's Office, the FY 2002 budget for the operation of the depot was about \$700 million, and the value of the depot maintenance materiel inventory was about \$89 million.

**Naval Air Depot, Jacksonville.** NADEP-JAX is one of the Navy's three aviation maintenance depots. The value of the materiel inventory at NADEP-JAX was about \$89 million, according to depot financial records as of June 30, 2002. The NADEP-JAX mission is to provide maintenance, engineering, logistics, and support services for airframes, engines, and other aviation components. Systems that NADEP-JAX supports include EA-6B, F-14, and P-3 aircraft; F-404, F414, J-52, and TF34 engines; and electro-optics, air refueling components, and launchers.

**Accounting For and Controlling Materiel.** Inventory control is defined as the control of materiel by accounting and physical controls. Accounting control involves proper recording and reporting of inventories. Physical control is the incorporation of adequate safeguards for receiving, storing, handling, and issuing materiel. A physical inventory tests the accounting and physical controls by validating an item's storage location, on-hand quantity, and condition by counting and physically inspecting the items.

Inventory control is needed to ensure that an adequate supply of materiel is on hand to maintain efficient levels of operation and to meet the demands of customers. Effective inventory control is also essential in disclosing defective and obsolete goods; preventing loss through damage, pilferage, or waste; ensuring inventory accuracy; and identifying materiel not needed for current requirements so that materiel can be made available for redistribution to meet other known requirements.

**Management Oversight.** The Naval Air Systems Command (NAVAIR) is the office of primary responsibility for the three Naval Air Depots within the Navy and provides overall guidance for managing materiel at the depots. Naval Air Systems Command Instruction 4400.5A, "Material Inventory Control Policy and Procedures for Naval Air Depots," July 2, 2002 (NAVAIRINST 4400.5A), provides policy and procedural guidance for management and control of materiel at the Naval Air Depots.

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**Manufacturing Resource Planning II System.** At NADEP-JAX, maintenance materiel is managed by the Manufacturing Resource Planning II System (MRP II). The MRP II was approved as the Department of Defense maintenance, repair, and overhaul information management system. The objectives of the MRP II Program are to provide DoD maintenance depots the tools to increase control over operations, optimize inventory levels, improve production and scheduling responsiveness, optimize inventory and work-in-process levels, and improve capacity analysis and workload scheduling.

## Objectives

Our overall audit objective was to evaluate the effectiveness of policies and procedures used to account for and control materiel at NADEP-JAX. We also reviewed the management control program as it related to the overall objective. See Appendix A for a discussion of the scope and methodology, our review of the management control program, and prior coverage.

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## **Management of Materiel at the Naval Air Depot, Jacksonville**

NADEP-JAX maintained materiel that exceeded requirements because NADEP-JAX did not have clear guidance regarding the management of materiel, did not perform quarterly reviews to identify materiel for which there may no longer be a valid requirement, did not have adequate guidance to account for and control point of use (POU) inventory, and did not have adequate management controls in place to account for and control maintenance materiel. Also, the lack of NAVAIR oversight contributed to the problem of accumulating excess materiel. As a result, NADEP-JAX had about \$20 million of materiel in excess to known requirements stored at the depot. Also, our stratified random sample of 385 inventory records at NADAP-JAX produced an estimated count error rate of about 23.8 percent. Excess and inaccurate inventories will result in materiel that loses visibility to item managers and may become lost, obsolete, or stolen. In addition, proper management decisions over the use of materiel may have been hampered.

### **Guidance on Managing Maintenance Materiel**

DoD Regulation 4140.1-R, “DoD Materiel Management Regulation,” May 1998, provides policies for DoD Components regarding management of materiel. The regulation states that the DoD Component that has physical custody of materiel is responsible for the care and safeguarding of the materiel and shall maintain quantitative balance records. The DoD Components shall also conduct annual physical inventories and shall take appropriate actions to ensure that the on-hand quantity and total item property records agree.

NAVAIRINST 4400.5A provides policy and procedural guidance for management and control of materiel and supply inventories at Naval Air Depots. The instruction states that Naval Air Depots will conduct physical inventories and research all discrepancies. In addition, the instruction provides guidance for processing excess materiel. NAVAIRINST 4400.5A replaced NAVAIRINST 4400.5, “Materiel Inventory Control Policy and Procedures for Naval Aviation Depots,” March 31, 1993. However, the guidance regarding physical inventories and the processing of excess materiel was the same in both instructions.

### **Storage of Depot Maintenance Materiel**

NADEP-JAX maintained materiel that exceeded requirements. As of June 30, 2002, financial records at NADEP-JAX showed that about \$89 million of materiel inventory was stored in maintenance storerooms. Of the about \$89 million of materiel stored in maintenance storerooms at NADEP-JAX, about \$20 million of the materiel was excess materiel. Some of the materiel had been inactive for

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several years. For example, NADEP-JAX had on hand 132 semiconductor devices (National Stock Number 5961-01-035-2641). With a unit cost of \$149.03, the value of the excess inventory for that item was \$19,672. The item manager for semiconductor devices stated he had not purchased the devices since 1989 and had not issued a device to a depot since 1994. Materiel that has been inactive for extended periods and identified as excess materiel should be either transferred to ongoing programs if needed or turned in to installation supply for disposal.

Accumulation of excess materiel has been an ongoing problem within the Naval Air Depots and was reported by the General Accounting Office in 1992. General Accounting Office Report No. NSIAD-92-216, "Navy Supply: Excess Inventory Held at the Naval Aviation Depots," July 22, 1992, states that depots retained large inventories of excess materiel for many years. The report states that in FY 1991 the excess materiel balance totaled \$40 million, or 28 percent of the total inventory.

## Excess Materiel

Excess materiel accumulated at NADEP-JAX because the depot did not have clear guidance regarding the management of materiel, did not perform quarterly reviews to identify materiel for which there may no longer be a valid requirement, did not have adequate guidance to account for and control POU inventory, and did not have adequate management controls in place to account for and control maintenance materiel.

**Guidance.** NADEP-JAX had conflicting guidance regarding the management of materiel and did not perform quarterly reviews to identify materiel for which there may no longer be a valid requirement. NAVAIRINST 4400.5A provides guidance about identifying and retaining excess materiel. The instruction states that quarterly reviews of maintenance materiel needed for routine, current operations should be conducted to determine whether the materiel is required and that materiel found to be inactive in excess of 270 days should be returned to the supply system. In addition, the instruction provides that materiel with long lead-time procurement or low demand levels can be stored for periods up to 12 months. However, that inventory must be limited and must also be reviewed quarterly to ensure there is a genuine foreseeable future requirement.

NADEP-JAX personnel stated that NAVAIR had approved the use of a 450-day (five quarters) criterion for all maintenance materiel. NADEP-JAX provided us an inventory listing of about \$20 million in excess materiel based on the 450-day criterion. When we contacted NAVAIR personnel regarding the 450-day criterion, they stated that it had been agreed to but formal written policy had not been developed. In addition, NAVAIR could not provide its rationale for extending the allowable time for materiel to remain in an inactive status. We believe NADEP-JAX should adhere to the 270-day and 12-month guidance to identify excess materiel to ensure timely disposition of unneeded materiel.

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**Quarterly Reviews.** NADEP-JAX personnel were not performing quarterly reviews of materiel stored in maintenance storerooms as required by NAVAIRINST 4400.5A. The instruction requires depot maintenance personnel to perform quarterly reviews of materiel stored at the depots to identify excess materiel and materiel that has been inactive for more than 270 days (routine use) or 12 months (long lead-time or low demand). Materiel no longer needed should be returned to the wholesale supply system. Failure to perform quarterly reviews resulted in the accumulation of excess on-hand materiel. In addition, maintenance personnel were reluctant to turn in excess materiel because of costs associated with turn-ins when credit is not given. Further, personnel wanted to avoid the negative impact of writing off the value of excess inventory on financial statements.

**Point of Use Inventory.** To make frequently used items readily available to maintenance personnel, NADEP-JAX maintains a storage area within the maintenance production area where POU inventory is used. POU inventory should be limited to low-cost, high-usage consumable materiel and parts. However, the POU inventory included many high-dollar items. For example, POU inventory records showed that NADEP-JAX had 20 tension bars (National Stock Number 6615-00-181-2374) on hand. With a unit cost of \$731.96, the total value of the tension bar inventory was \$14,639.20. Our physical inventory showed that 2 of the 20 tension bars were not on hand. Maintenance personnel within the production shops have free access to POU inventory to ensure an uninterrupted workflow, but are responsible for updating the MRP II system as the materiel is consumed. Our physical inventory of 51 POU items from our sample of 385 storage records revealed count errors in 27 (53 percent\*) of the POU records reviewed. POU inventory should be closely monitored to reduce the error rate.

The high error rate can be attributed to a lack of Navy guidance and internal controls governing the use of POU inventory. Because maintenance personnel have free access to POU inventory, which includes many high-dollar items, Navy policy and local guidance needs to be developed to ensure proper control of POU inventory. Although MRP II has process guides for managing POU inventory, the process guides do not provide adequate procedures to ensure POU inventory is adequately accounted for and controlled. For example, the MRP II process guide states that when maintenance technicians require materiel from a location, they remove the part required and perform a transaction in the POU issue program that updates the inventory balance in MRP II. That process does not provide for separation of duties and, therefore, is vulnerable to mismanagement.

**NADEP-JAX Management Control Program.** NADEP-JAX had a defined management control program in place and had policies and procedures to ensure that the plan was executed. However, the plan could be improved in the area of inventory control by adding steps to the annual review of inventory management that would require verification of inventory accuracy by comparing MRP II

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\* The 53 percent is based on the unweighted sample results and cannot be generalized to the universe.

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records with physical counts. In addition, steps should be added to require a review of inactive inventory to determine whether there is still a requirement for that inventory and, if no requirement exists, identify and make that inventory available for redistribution or dispose of the materiel.

## **Management Oversight of Materiel**

The lack of NAVAIR management oversight of maintenance materiel contributed to the problem of excess materiel accumulating at NADEP-JAX. Also, our stratified random sample of 385 inventory records at NADAP-JAX had a count error rate of about 23.8 percent.

DoD and Navy regulations require that maintenance depots maintain quantitative balance records, account for materiel on formal records from the time of acquisition until the ultimate consumption or disposal of the property, conduct annual physical inventories, and take appropriate actions to ensure that the on-hand quantity and total item property records agree. Those requirements were issued to ensure the care and safeguarding of materiel. NAVAIRINST 4400.5A states that the NAVAIR Deputy for Industrial Production Support is responsible for ensuring that inventory trend analysis for each depot is performed, actions are taken by the depots to reverse negative trends, and depots comply with NAVAIR materiel policies. In addition, the instruction requires depot comptrollers to provide quarterly inventory statistics to NAVAIR. NADEP-JAX personnel could not provide documentation to show that the required quarterly reviews had been prepared. NAVAIR should require quarterly reports so that inventory levels can be monitored to ensure adequate accountability and control of materiel and that excess materiel does not accumulate.

The inventory records for accountability and control of materiel in storerooms at NADEP-JAX were inaccurate. For our physical inventory, we statistically selected 385 storage records from a universe of 71,287 storage records to determine whether quantities that were on hand matched quantities identified in the MRP II records. We compared the balances in the MRP II records with the physical counts of items in storerooms.

The comparison of the MRP II records and our physical counts showed count errors in a number of the sample MRP II records. By applying statistical weighting to the sample, we estimated that about 16,935 (23.8 percent) of the 71,287 records in the universe would have count errors. Because of the high count error rate, a physical inventory of materiel should be performed and inventory records adjusted accordingly.

Excess and inaccurate inventories will result in materiel that loses visibility to item managers and may become lost, obsolete, or stolen. In addition, proper management decisions over the use of materiel may have been hampered.

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## Potential Monetary Benefits

The audit identified excess materiel valued at about \$20 million. Therefore, NADEP-JAX could have \$20 million of potential monetary benefits. The exact amount cannot be determined until NADEP-JAX identifies inventory excess to prevailing requirements and determines whether the excess materiel can be used to satisfy other known requirements.

## Recommendations

1. We recommend that the Commander, Naval Air Systems Command:
  - a. Enforce the requirements of NAVAIRINST 4400.5A to identify excess materiel that has been inactive for more than 270 days for routine use materiel and 12 months for long lead-time or low demand materiel.
  - b. Require quarterly reporting of excess of materiel at Naval Air Depots to ensure excess materiel does not accumulate.
  - c. Develop policy for point of use inventory.
2. We recommend that the Commander, Naval Air Depot, Jacksonville:
  - a. Perform physical inventories of materiel stored in all storage locations and adjust inventory records accordingly.
  - b. Perform the required quarterly reviews of materiel stored in maintenance storerooms to determine whether valid requirements exist for the materiel.
  - c. Identify all excess materiel stored in maintenance storerooms and return the materiel to the supply system.

## Management Comments Required

The Navy did not comment on a draft of this report. We request that the Commander, Naval Air Systems Command and the Commander, Naval Air Depot, Jacksonville provide comments on the final report.

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## Appendix A. Scope and Methodology

We performed the audit at NADEP-JAX. We contacted personnel at NAVAIR and Government and contractor personnel involved in the aviation maintenance operation at NADEP-JAX. We reviewed DoD and Navy regulations regarding policies, responsibilities, and procedures for managing maintenance materiel at Naval Air Depots. We concentrated on accountability and control of repair parts and consumable materiel. Our audit focused primarily on information from inventory records dated August 15, 2002. As of June 30, 2002, NADEP-JAX reported a total inventory value of about \$89 million.

To determine whether repair parts and consumable materiel were accurately accounted for and controlled, we inventoried a stratified sample of materiel on hand at NADEP-JAX. We used inventory records from MRP II dated August 15, 2002, to identify the universe of 71,287 NADEP-JAX storage records, from which we statistically selected a sample of 385 storage records to physically inventory. We performed the actual physical inventory between August 19 and August 21, 2002. For any storage record that had a discrepancy between our physical count and the MRP II record, we attempted to reconcile the discrepancy by reviewing all inventory transactions for the location that occurred between August 15, 2002, and the date of our count. The audit was performed from August through November 2002 in accordance with generally accepted government standards.

**Use of Computer-Processed Data.** We relied on computer-produced data from MRP II. Our review of system controls and results of data tests showed an error count rate that cast doubt on the data's validity. In addition, we believe that the monetary value of the inventory in MRP II is inaccurate. Information obtained from the NADEP-JAX comptroller's office showed an inventory value of about \$89 million in June 2002. However, information obtained from MRP II showed a total inventory value of \$353 million. During our physical inventory, we identified one item that was overpriced in the MRP II by \$248 million. That item accounted for a substantial portion of the \$264 million difference between the inventory value reported by the comptroller's office and the MRP II. We were told by the comptroller's office that the financial data in MRP II is not used for any business purposes, and, since our objective dealt primarily with verification of inventory quantities, the inaccurate financial data contained in the MRP II would have no adverse effect on our audit conclusions.

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**Sample Design.** We used a stratified random sample design based on the materiel value per storage record and randomly selected storage records as of August 15, 2002, as shown in the following table.

### Population and Sampling

<u>Stratum</u>	<u>Number of Storage Records</u>	
	<u>Stratum Population</u>	<u>Stratum Sample</u>
Deadstock	7,210	50
\$0 - \$100.00	31,580	50
>\$100 - \$1,000	20,626	50
>\$1,000 - \$10,000	10,331	100
>\$10,000 - \$1,000,000	1,535	130
>\$1,000,000	5	5
<b>Total</b>	<b>71,287</b>	<b>385</b>

**Sample Results.** Using the stratified sample design, we calculated statistical projections of the errors of materiel count in storage locations and the projected overstated and understated values of the inventories.

Based on the sample results, and by using a 90 percent confidence level, we project that between 12,318 and 21,552 records have materiel count errors at NADEP-JAX. The point estimate of 16,935 (23.8 percent) is the mid point of the range of values. We further project that the understated value of the materiel in error is between \$2.16 million and \$8.2 million. The point estimate of \$5.18 million is the mid point of the range of values. Also, the overstated value of the materiel in error is between \$7.25 million and \$14.6 million. The point estimate of \$10.92 million is the mid point of the range of values.

**Use of Technical Assistance.** Research analysts from the Quantitative Methods Division of the Office of the Inspector General of the Department of Defense provided assistance in designing the statistical sampling plan for selecting inventory records for review and projecting the results.

**High-Risk Area.** The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the Defense Inventory Management high-risk area.

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## **Management Control Program Review**

DoD Directive 5010.38, “Management Control (MC) Program,” August 26, 1996, and DoD Instruction 5010.40, “Management Control (MC) Program Procedures,” August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of the Review of the Management Control Program.** We reviewed the adequacy of management controls at NADEP-JAX regarding storage and disposition of maintenance materiel at the depot. We also reviewed the adequacy of management’s self-evaluation of those management controls.

**Adequacy of Management Controls.** We identified material management control weaknesses for NADEP-JAX as defined by DoD Instruction 5010.40. NADEP-JAX did not have adequate procedures in place to ensure the accuracy of inventory records and did not have controls to ensure that excess materiel was identified and appropriate actions taken. The recommendations in this report, if implemented, will improve controls over maintenance materiel at NADEP-JAX. A copy of the report will be provided to the senior official responsible for management controls at NAVAIR.

**Adequacy of Management’s Self Evaluation.** NADEP-JAX identified inventory control as an assessable unit but did not identify or report the weaknesses identified by this audit.

## **Prior Coverage**

During the last 5 years, the Inspector General of the Department of Defense (IG DoD) has issued four final reports that discuss management of repair parts for maintenance. Unrestricted IG DoD reports can be accessed over the Internet at <http://www.dodig.osd.mil/audit/reports>.

### **IG DoD**

IG DoD Report No. D-2003-033, “Accountability and Control of Materiel at the Naval Air Depot, North Island,” December 6, 2002

IG DoD Report No. D-2002-091, “Accountability and Control of Materiel at the Corpus Christi Army Depot,” May 21, 2002

IG DoD Report No. D-2002-003, “Accountability and Control of Materiel at the Tobyhanna Army Depot,” October 4, 2001

IG DoD Report No. D-2001-186, “Accountability and Control of Materiel at the Tobyhanna Army Depot – Stockage of Communications-Electronics Materiel,” September 21, 2001

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House Subcommittee on Technology and Procurement Policy, Committee on  
Government Reform

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